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PUBLICITY AND REFORM IN BUSINESS

BY HENRY CLEWS OF NEW YORK

We live in a progressive age, and we are at present passing through a period of salutary business reform. This reform means improvement; and business men of all kinds should help and not retard it. The banking, railway and insurance communities should, in particular, do all they can to promote it, and invite the fullest publicity as to their transactions and methods of doing business. In this connection the opposition developed in the New York Legislature to the investigations of the banks was a mistake of judgment, because it was calculated to excite distrust, whereas willingness to submit to thorough investigation would allay it.

This opposition drew more public attention to the agitation for a general bank department examination than would otherwise have been attracted to it, and the unwillingness to submit to it suggested that there was a screw loose, or something to conceal in connection with some of the State banks; and that they were therefore vulnerable to attack, or at least open to criticism. This suspicion those concerned should have avoided by not only boldly facing the legislative music, but inviting it and leaving everything open and above board. Corporations and banking and mercantile firms that become at all objects of suspicion should, in their own interests, speedily clear themselves by inviting the fullest examination and publicity. Unsoundness and irregularity, if such existed, would thus be exposed and weeded out, instead of being nursed in secret, and so doing harm and impairing confidence in corporations and firms perfectly sound and regular in their methods and practices. The sound concerns would stand better than ever after passing through this ordeal of publicity. The New York Legislature, as well as the Legislatures of the other States, should respond to the popular agitation for publicity by passing laws requiring all corporations, including banks and trust companies, to make at least semi-annual reports of their condition, certified to by registered public accountants, with power vested in the State Superintendents to order special

examinations by such accountants, at any time, when deemed necessary; that is, whenever they were suspected of being unsound or irregular in their business methods. This should be done for the protection of others as well as to clear them of suspicion and restore their credit, if found to be sound and straight. Only the insolvent and the crooked would have anything to fear from this wholesome publicity.

In this way disaster might be averted and impaired confidence promptly restored. I lay stress upon the employment of skilled accountants because the certified results of their examinations would be accepted as conclusive of the actual conditions being as they stated and described. They would speak with authority. It should be made a felony for an accountant to make a false or misleading report, and he should ever after be disqualified from practising as such.

To meet the growing demand for them, every college and university should have a department for the special training of accountants, who on graduating should receive a diploma or degree, as in the medical or legal profession. Already the position held by certified accountants is high, but it should be raised still more by the action of the universities and colleges. Some of these have established departments for accountants, where the students undergo thorough training by men who have had practical experience in the profession, but all institutions of learning ought to have them and maintain them in a high state of efficiency in view of their importance to the business community. The opposition to publicity shown by the New York State banking interest, as represented in the Legislature, has been supported by some of the small life insurance interests, as in New Jersey, where it has choked off probing, and they have aroused fresh suspicions, and much adverse criticism thereby. Such inside irregularities as were not brought to light by the Legislative Committee's investigation they are apparently disposed to hide, and they object to being controlled by the legislative enactments proposed by this capital committee. It is not surprising that many are led to suspect that there is much still concealed that ought to be revealed.

This desire for secrecy is obviously in defiance of public sentiment, and the Legislature should make the house-cleaning thorough, while it is about it. If it does less, it will fail in its duty to the

policyholders and the people. In particular, it should place a ban upon excessive salaries. They are unjust to the companies and demoralizing to the recipients.

It is indeed very surprising under the circumstances that the officers and trustees of the great life insurance companies should have supposed that anything short of complete cleansing and purification would satisfy their policyholders and the public. Their attitude resulted in an open rupture in the investigating committee of one of the large companies and the resignation of one of its most prominent members.

The bankers of the country are, more or less, intimately concerned in seeing this Augean insurance stable thoroughly cleaned out, for, unless it is, distrust will linger, and the life insurance taint, will, more or less, continue to extend to the banks, bankers, bond dealers and trust companies, with which the life insurance companies necessarily have to do business.

For the banking interests to virtually ignore the past, and say to the life insurance companies, "Go, and sin no more," would be pusillanimously evading the requirements of the situation. The cloud that drifted over Wall street from the insurance investigation must be entirely dispersed by the fullest investigation and publicity, and the establishment of a new régime in insurance management and its banking methods and affiliations.

It is the duty of life insurance trustees to co-operate to this end, and for them to refuse to do so is to imply consciousness of their own inability to stand the searching ordeal. If such there be, owing to their purchases or sales of securities, in connection with their respective companies, or any other doings that cannot bear the light or are open to criticism, they should be ventilated, and exposed, without fear or favor.

The effort to smother further life insurance investigation, which had its counterpart in the opposition to the proposed banking department investigation, should be frowned down by public opinion, both in the interests of morality and good business practices. The banks and the banker should, like Cæsar's wife, be above suspicion and not less so the life insurance manager and trustee.

Turning to the railways, we find the need of stricter laws in matters that favor a few at the expense of the many, as, for instance, in the giving of rebates. To prevent these, not a mere fine,

which can be easily paid, should be imposed, but the offense should be made a misdemeanor, punishable with imprisonment. Railway officials would then, with the danger of an indictment, and a term in prison before them, hesitate to violate the law. For their own reputation, as well as for the sake of their families, they would be likely to avoid that secret and unlawful rate cutting, disguised by the payment of rebates, which has done so much in the past to foster unholy monopolies, and crush competition, to the ruin of thousands.

In the lime-light of publicity the irregular rebate practices of the railways, for the benefit of large and favored shippers, would be impossible; and equally so would have been the go-as-you please and extravagant management of the life insurance companies as revealed by the insurance investigation. Under the new order of things, regulated by stricter laws, it should be made impossible for these irregularities ever to occur. The death-knell should also be sounded by these stricter laws and reforms of much of the "Graft" that has been epidemic in political and business life. Publicity of accounts would be a protection to all solvent concerns and expose and eliminate the unsound and the fraudulent, that would otherwise be a menace to them, and it should be welcomed by all who have nothing to fear from such publicity.

We are passing through a reform — yea, a revolutionary period in business affairs. But good will come out of it, for with our improved business methods will come a higher sense of responsibility and a keener perception of duty, which cannot fail to inspire correspondingly greater confidence and produce more certain results. We shall thus have more conservatism in business and fewer speculative hazards and crookedness than before.

Therefore, let the march of reform be unimpeded, for it will lead us to a higher financial and commercial eminence than even that on which we already stand, and hasten the time when this country will be the world's greatest financial and commercial center.

It would seem that many need more conservatism and prudence in their business ventures, and they would be the better for having the lime-light of publicity thrown on them. When the sky rockets of the business world fall, they are not the only sufferers, for they injure others who are perfectly sound and conservative, by creating distrust of all.

The accounting and publicity I advocate would expose, check and prevent the irregularities and the one-man power abuses that have ended in so many collapses. The one-man control of large corporations must come to an end. An ounce of prevention is better than a pound of cure.

Corporations, too, should show that they have souls by not neglecting the welfare of their employees. They should promote their health by giving them healthy surroundings where they work, and also by making graduated provision for old age service, or pensions in case of disability, after long service. This, or giving them a share in the profits of the business, would do much to narrow the gulf between labor and capital.

The one-man power in large corporations with a lot of dummy directors subservient to it, should also come to an end. Dummy directors are no better than so many decoy ducks that mislead the public. They are directors who do not direct and are not expected to direct by those in control who selected them for election. They are consequently a false pretence. No man ought to accept a place as director or trustee of an institution, or corporation, particularly a banking, railway, industrial or life insurance company, who does not fully appreciate the responsibility of the position and the care and vigilance it demands, and intend to faithfully and conscientiously perform its duties. To intentionally become a dummy director is reprehensible, and directors in dealing with the officers of their corporations should have opinions of their own and not be afraid to express them. They are not alone responsible for their own errors or wrongful acts, but for failure to expose and put a stop to the wrong-doing of the officers or employees under their control, and they should not assume such duties when they cannot properly attend to them.

I once knew a man of very great business renown who during the last thirty years of his life was much sought after because he possessed the qualifications necessary to make him a most satisfactory dummy or dumb director. Hence he was connected with a very large number of companies. He was a man of wealth, retired from business and had great capacity, but it was of the avoirdupois kind. His chief qualification consisted in his always attending punctually all the meetings. He came early and staid till the end. He watched closely to determine which way the majority vote was

going and always went with it. He was never known to open his mouth, except when the luncheon was served after the directors' meeting had adjourned. He was much lamented by corporation managers when he died. He was their favorite director on the ground, as claimed, he gave no trouble and was perfectly satisfied with the result of every meeting, when he was handed his five-dollar gold piece for attendance which caused him to go home rejoicing. I cite him as a specimen brick among dumb and dummy directors.

Directors should make it their business to learn all that is going on in the corporations and institutions that they direct, so that they may qualify themselves to act intelligently, instead of in a blind-folded way, as is too commonly the case. They should assert their rights, and direct in fact as well as in name, but, of course, necessarily leaving all the details to the officers. They too should avoid grinding axes of their own at the expense of their companies, and co-operate with both State and Federal officials in the strict observance and enforcement of the laws, and never connive or wink at their evasion.

All these influences for the better would promote public confidence in our ways of doing business, and indirectly also contribute to the stability of our monetary position. What we more greatly need is a more stable money market in Wall Street. Such erratic changes in the rates for stock exchange loans as we sometimes see would create a convulsion in Europe, if they were possible there. But as they are not possible there, why should they be here? We are destined to ultimately become the monetary center of the world, but that cannot be till we acquire the stability of the old world in interest rates.

A freak money market jumping up to absurdly high rates and then down again is as dangerous as it is intolerable. It is inimical to the proper transaction of legitimate business, and a disturbing factor that should be made as impossible in New York as it is in London, Paris or Berlin. What we need, among other things, to prevent it is more care and conservatism in banking circles. In the European money centers the rates for money rise and fall in response to supply and demand, just as they do here, but within narrow limits beyond which they never pass. There is no good reason why it should not be so with us.

It is to be hoped that the eminently well qualified members of the Committee appointed by the New York Chamber of Commerce—consisting of Messrs. Vanderlip, Conant, Straus, Claflin, Clark and Johnson—will reach a solution of the problem of the money market, and define how far its vagaries and irregularities are owing to a want of sufficient currency, capital or credit, or sudden and excessive demands for loans, consequent on excessive activity in speculation, or unwillingness to lend in times of distrust and panic.

In European countries monetary stability can always be relied upon; and that element of stability, which our money market now lacks, must exist here before we can command the confidence of the world as the world's financial center. But we are now rapidly taking steps in the right direction, and the reform movement in business and legislation can come none too soon for our national welfare. Let the good work of reform go on and prosper, for from it we shall reap an abundant harvest in the future.

There was no good and sufficiently sound reason why money, on call, should have been loaned in Wall Street at rates ranging from 100 to 125 per cent. per annum—as it was in December last when in other cities all over the country it loaned no higher than six per cent. These money spasms, while local in their actual effect, exert a disturbing and demoralizing moral influence, which is far reaching. Such pernicious activity in the money market is not natural. It is due to artificial causes and ill-regulated methods affecting our local supply and demand.

For the rates of interest to be leaping wildly up and down, in the loan crowd of the stock exchange, and changing violently every few moments, according to the shifting bids and offers of the excited borrowers and lenders, would seem to be absurd and laughable enough for opera bouffe. But in the banking and stock exchange business it is a serious evil, involving large results.

Such an abnormal money market is, of course, not very often seen, but it occurs often enough to make it important for us to study its causes and seek a remedy for such monetary excesses. It is indeed a topic so serious as to call for the gravest consideration. Yet neither the stringency nor these minute to minute, or hour to hour, fluctuations were caused by any fluctuation going on in the volume of the currency or any except local influences.

What we have to guard against and prevent are these occasional

spasms. Against the slow general rise and fall of interest rates for money of from, say, 2 to 6 per cent. per annum and vice versa, there is nothing to be said, for the movement is a legitimate one, a natural result of the varying supply and demand. We see it in the old world, as well as the new world, but such rocket-like soarings, and such eccentric ups and downs as Wall Street has experienced from time to time are peculiar to itself. It must, however, outgrow them, and the sooner it does so the better. It is not my purpose in this article to show how the end in view may be best accomplished, but that it should be accomplished within no long time, is certain. The fault is not so much due to the want of elasticity in our currency system as to our local methods of doing business in stocks and lending and borrowing money to carry them.

One thing tending to produce occasional local stringency is that our money market has to contend with the evil effects of the New York Sub-Treasury or rather the Sub-Treasury system, that locks money up that ought to be kept in circulation. Every sub-treasury acts practically as a Government bank, just as the old United States National Bank in Philadelphia did, and takes in all the money it can get, but pays out none, except on Government vouchers. So it does not perform all the functions of a bank, and we should have a more elastic currency if the sub-treasury system were abolished, which it doubtless will be in time. Theoretically, we have no U. S. National Bank, yet practically we have one in every sub-treasury.

In Germany emergency currency may be issued by the banks in times of stringency. This, in effect, releases them from the limit on reserves, just as, in panics, a government order in Council releases the Bank of England from the limit placed on its note issues, and allows it to issue its notes to an unlimited extent. The consequent inflation of the currency under both the German and English systems, and the revival of confidence produced by it, brings relief in the money market.

But our only way of obtaining similar relief is for the Secretary of the Treasury to order treasury deposits to be made in national banks on the security of U. S. bonds, or if he is willing to accept them, first-class state or city bonds, assuming the banks to have the bonds; the Treasury may not always have the money to spare for this purpose, beyond its proper working balance, and at the best it is a make-shift expedient.

That we need a more elastic currency is indisputable, and also such changes in our custom of borrowing and lending money on collaterals, on the stock exchange, as will give us stability in rates of interest there, even in times of stringency. The time will come when the circulation of the national banks will be based on gold, instead of United States bonds, and in that way our monetary system will more closely approach that of the principal European nation. But we need not prepare to cross the bridge until we come to it.

With regard to the other matters referred to, it is always well to strike while the iron is hot, and at present the reform movement in legislation affecting life insurance and banking concerns is at white heat, not only in the State of New York, but elsewhere, and it should be pressed forward until all the results aimed at are secured.

In the first place, to accomplish this the life insurance and bank investigations already in progress, or proposed, should be carried out to the fullest extent, and, through the employment of expert and independent bookkeepers and accountants, made so thorough as to leave nothing hidden or in doubt. The results in detail should then be promptly published, and in a form that all could understand, so that the public would know the plain unvarnished truth. In this way rumors and suspicions of underhand doings, bribery and corruption, graft, fraud, deficiencies in accounts, misappropriation of funds, and concealed insolvency would, if not confirmed, be contradicted and swept away, thus leaving the concerns before under suspicion in all the better credit and standing.

Not only should all this be done now, but the State Legislation should be equally prompt in passing the laws necessary to maintain this high standard of publicity in the future, and making it mandatory upon the Banking and Insurance departments to order frequent examinations into the condition of all State banks and banking and insurance concerns by expert accountants, and publish their findings. All opposition to such investigation and publicity is of itself calculated to excite suspicion whether it comes from banks, trust companies, life insurance officers and trustees, or other concerns, or parties in interest. Industrial and other corporations, of all kinds, including railways, ought also to be made by mandatory laws, subject to stricter supervision and periodical examination as

to their financial condition. Hence the Attorney General of this and other states should be invested with new powers to this end, and the provisions of the laws should be made mandatory upon them. They should call for verified statements of earnings, profits, expenses, capitalization, indebtedness, dividends, property valuations, liabilities and assets so that large corporations would cease to be blind pools, and fraud and misrepresentation would be checked by being exposed; and it is exposure — publicity — which is most dreaded by those who prefer crooked ways to open and above-board business methods and integrity of purpose. But those who have nothing to hide, have much to gain from it, and should welcome the lime-light of this new era of publicity. Secrecy is only the defense of the weak.

The recent decision of the Supreme Court of the United States in the Tobacco and Paper Trust cases, that corporations cannot take refuge in secrecy, but must give testimony as to all their transactions, when required, even where it is self-incriminating, is a great victory of the people. It marks the beginning of a new departure in corporate management by enforcing existing laws, and requiring that publicity of accounts, which large industrial, railway and other corporations, and most notably the large industrial trusts, have hitherto so strictly guarded against and avoided, after the blind pool fashion.

The decision is that the law as it stands, giving a witness the constitutional privilege of refusing to give testimony tending to incriminate himself does not extend to or cover his refusal to produce books and papers that would incriminate his, or any other corporation, the immunity being wholly personal. He cannot, therefore, assert it either in behalf of a third person or a corporation, yet strange to say this clear and convincing reasoning has never been put forward by lawyers opposing the trusts. But it will make the way of the corporation transgressor harder in the future.

It opens the door and clears the way for a thorough, complete and public examination of the affairs and accounts of the trusts. It removes the last loophole for their escape from the consequences of their unlawful acts, and from the exposure of their methods of opposing and crushing competitors. They will, therefore, become liable to prosecution under the Sherman Anti-Trust Law, and all

unlawful combinations, schemes and conspiracies will be effectually and permanently broken up.

This decision is of such vast and far reaching importance, not only to all directly concerned, but to the whole country, that its legal effect and its moral influences can hardly be overestimated. It will probably become as famous in the history of the Supreme Court as the Dred Scott decision; and it will prevent in future the miscarriage of justice for want of evidence, against corporations, which has so frequently occurred in the past. It will also raise the moral tone of corporate management by enforcing publicity before refused, for the decision not only applies to all railway and industrial corporations, but banks, trust companies and insurance companies of all kinds. It shows that a rigid enforcement of existing laws is alone necessary to correct many abuses of long standing.

The temptation that secret acts, and secretive general management presents to those disposed to wrongdoing and chicanery, malfeasance, misappropriation and graft can easily be imagined; and it can also be as easily inferred that such management is apt to give rise to suspicions and rumors detrimental to the interest of the corporations concerned, and indirectly injurious to others. Honesty is not only the best policy, but a moral duty, and should be as much the watchword of corporations as of individuals, and no man should betray his trust for either love or money, whether acting in or out of a corporate capacity.

There is more permanent prosperity, as well as honor, to be secured by honest than dishonest means, and to quote the Bible, "what does it profit a man if he gain the whole world, and lose his own soul?" Yet unscrupulousness in high places of trust is often forced upon public attention. This should all be swept away as a debasing element in business life, for dishonesty, like the upas tree, casts a blighting influence wherever it is.

The corruption of judges and juries and the bribing of legislators should be more abhorrent than larceny itself to every captain of industry, and all corporate officials should have equal respect for the truth and their own honor. Great wrongdoers should be no more exempt from punishment than small offenders and mere millions should furnish no protection to them.

Great fortunes accumulated by monopoly and oppression, and other dishonest means, are no credit to their possessors, but really

a reproach, and the abuse of power by them is a great national evil. Every business man should take pride not only in his regard for honesty, truth and fair dealing, but in his own personal honor, whether he is acting for a corporation or himself. We are now on the high road to the correction of a multitude of abuses and the country is to be congratulated upon this salutary movement for improvement and reform in our business methods. Our great remedy is PUBLICITY, and the enforcement of the law.

I do not say with the spread-eagle Fourth of July orator —

“No pent-up Utica controls our powers,
But the whole boundless continent is ours.”

Yet it cannot be ignored that no other nation has such a magnificent career of expansion, development and progress before it as the United States, united as it is by telegraph and telephone and our vast network of railways, from the Atlantic to the Pacific, and Maine to Florida, in unbroken continuity.

With the growth of our population, which even now exceeds eighty millions, we shall grow more and more in national importance and wealth, not only in material wealth but in the higher products of an advancing civilization, in the arts and sciences and literature, and all that embellishes and glorifies mankind. Therefore we should, as we go along, constantly endeavor to correct errors, shortcomings and abuses, and prune away rotten and unsound timbers in our public and business life, and make the whole machinery of business and activities of all kinds — trade, banking, insurance, manufacturing, legislative, and the various professions and mechanical industries work as legitimately, honestly, smoothly and harmoniously as possible. The way to this can be best paved by promoting public spirit, and sweeping away the opportunities for business wrongdoing in secret, such as rebating, by wise laws properly enforced, and backed by public opinion, yet laws not oppressive, unjust or too inquisitorial. This would compel the “crooks,” “grafters,” “rebaters” and “competition crushers” of the business world, who have schemed in darkness, and shunned the light, to come out into open view, and this publicity alone would be a perfect cure for many great evils. So let us have more light — the light of PUBLICITY.